

Three Views of EITI Implementation in Azerbaijan

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This publication encompasses the survey on the Extractive Industry Transparency Initiatives (EITI) Campaign with funding from the Open Society Institute – Assistance Foundation (OSI-AF).

A Memorandum of Understanding signed in 2004 by the National Commission aimed at improving the Extractive Industry Transparency Initiatives (EITI), the NGO Coalition established to show strong support for this campaign, as well as a variety of local and foreign extractive sector companies has led to larger cooperation since then.

This book represents approaches to problems made by three groups that have signed **the Memorandum of Understanding** and their attitudes to one another.

These approaches do rest on the analysts' opinions and estimates, and they might not overlap with ERC's position. Given this principle based on criteria, such as independence and objectivity, the respect for opinions voiced by the economic analysts representing both sides has been a priority during the authors' assessments and comments on survey results.

The book is distributed free of charge

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FOREWORD

Nearly two years have passed since the Government of Azerbaijan joined the Extractive Industries Transparency Initiative (EITI) at the International EITI Conference in London. Later, on November 24, 2004, the National Committee on EITI, foreign and local extractive industry (EI) companies, and the NGO Coalition to Improve Transparency in the Extractive Industries signed a Memorandum of Understanding (MOU) to further mechanisms to implement the EITI in the Republic of Azerbaijan.

Currently, big stride is taken forward on the EITI process, in compliance with Memorandum requirements: the Government's State Commission, responsible for overseeing the implementation of the EITI, foreign and local EI companies have agreed to submit reports twice a year (semiannually and annually) and to select an internationally recognized audit company operating in Azerbaijan assigned to verify published data and to disclose audit results by common consent to the public.

The reporting process is implemented twice a year: annual and semi-annual reports shall be submitted not later than 15 March and 15 August accordingly. But the reporting is viewed from different approaches, since although all the extracting companies participating in the EITI process in Azerbaijan are willing to fill out reporting templates for collecting data, they do not consider it necessary to publish their payments on an individual basis (other than SOCAR, BP, Shell and Statoil), but agree that published data shall be independently verified and reconciled by an auditor. In this connection, they present a range of arguments (disclosure of commercial secrets, competitive capacity slowdown, etc). Relevant NGOs, media, as well as independent analysts offer their own tools to treat the situation.

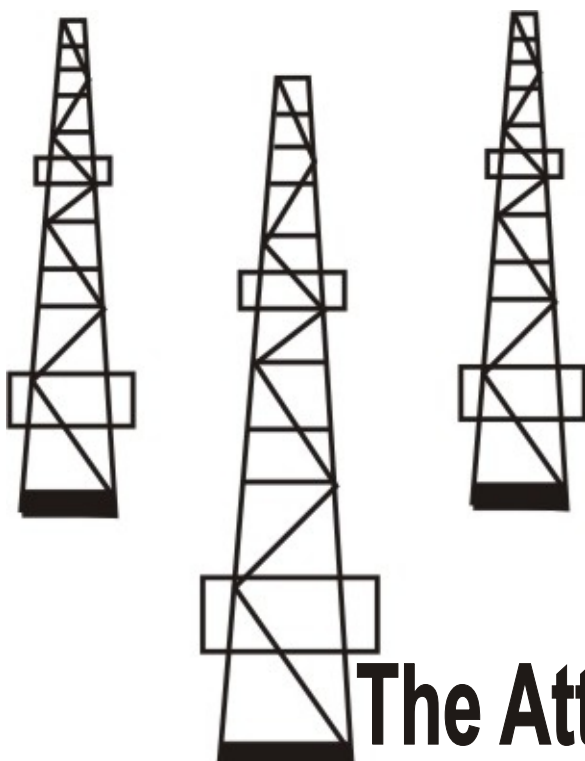
Results from the survey conducted by the Economic Research Center (ERC) are of public interest in terms of virtually evaluating the situation, investigating opinions voiced by a variety of organizations, including but not limited to impact groups, concerned circles (members of the

National Committee on EITI, representatives of local and foreign companies or foreign institutions in Azerbaijan, NGOs and media, as well as independent analysts), and submitting a catalog of guidelines through summarizing obtained results with a view to identifying the Coalition's further strategies and improving the Memorandum.

This book describes outcomes of the first phase of ERC-launched survey on the EITI with funding from the Open Society Institute - Assistance Foundation (OSI-AF) and organizational support of the NGO Coalition to Improve Transparency in the Extractive Industries¹.

Given that this is the first time the poll in this format has been conducted in Azerbaijan, it is hard to say disadvantages are avoidable. However, we consider it expedient to hear valuable comments and suggestions from our readers. We as author only focus on a fact that further polls of this kind will serve primarily as a feasibility assessment of new tendencies and situations to appear as a result of comparisons. Therefore, we hope this survey is a source of numerous studies to be carried out in this field and a range of policies to be developed in years into the future.

¹ The Extractive Industries Transparency Initiative (EITI) was launched by U.K. Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, South Africa on September 2, 2002. It is a voluntary initiative that aims to increase the transparency of natural resource revenues by developing standardized reporting requirements for companies and governments. The National Committee on EITI was established by the November 13, 2003 Ordinance of Azerbaijan's Cabinet of Ministers. A coalition to Improve Transparency in the Extractive Industries was established in a conference held at the Radisson SAS Plaza of Baku on May 13, 2004 with participation of heads of over 40 non-governmental organizations (NGOs).



The Attitude

of Extractive Industry (EI)
Companies in Azerbaijan

to the Extractive Industries
Transparency Initiative (EITI) Campaign

Survey overview and objectives

Since 1994, the State of Azerbaijan has awarded to some 30 oil producing companies from over 15 countries to develop oil projects under 26 production sharing agreements (PSAs) in the Azerbaijan sector of the Caspian Sea. A large number of foreign corporations and joint ventures as operators, contractors, and sub-contractors under the PSAs have been involved in these operations. A number of EI companies in Azerbaijan have been strong supporters of the EITI. This survey extended to companies addressed aimed at:

- **Scrutinizing the EITI campaign at company levels**
- **Determining the participation level of companies in this campaign**
- **Clarifying the companies' attitude to further initiative process**
- **Investigating the companies' attitude to the activity of the Azerbaijan government, including EITI implementation**
- **Identifying awareness or competence level of EI companies related to the NGO Coalition's activity.**

The survey questionnaire contained 22 questions, developed between June and July 2005 and sent to major oil and gas producing companies early in August (2-3) with a cover letter once the NGO Coalition Board reviewed and approved it.

The survey was extended to 20 extractive companies for ensuring their support for the EITI campaign in Azerbaijan. The following is a list of companies focused:

- 1. The State Oil Company of the Azerbaijan Republic (SOCAR)**
- 2. Bp Exploration (Caspian Sea) Ltd**
- 3. Exxon Mobil Azerbaijan Operating Company LLC**
- 4. Statoil**
- 5. ANSHAD Petrol**
- 6. Shell Azerbaijan**
- 7. Lukoil Overseas Service Ltd**
- 8. Unocal**
- 9. Devon Energy Caspian Corporation**
- 10. TPAO**
- 11. Azgerneft**
- 12. Itochu Oil Exploration (Azerbaijan) Inc.**

13. ConnocoPhillips
14. Garasu Operating Company
15. Total E&P Azerbaijan B.V.
16. Amerada Hess
17. Salyan Oil
18. Shangli Oil
19. Shirvan Oil
20. Middle East Oil

The response process in survey took a long time, yet it was mentioned in the cover letter that the questionnaire included a short-term (two-month) time limit for organizations to respond. At the beginning of January this year, we decided to quit the survey to draw inferences. Though the questionnaires were not returned within that time, only eight of the 20 companies sent their responses to us. They are:

1. Garasu Operating Company
2. Bp Exploration (Caspian Sea) Ltd
3. Salyan Oil
4. ANSHAD Petrol
5. Lukoil Overseas Service Ltd
6. SOCAR
7. Shell Azerbaijan
8. Statoil

And two companies below however replied in the way of actual refusal under incomprehensible pretexts instead of responding to the questions in the survey questionnaire:

*** Middle East Oil emailed notification (dated 10.01.2006) about its failure to fill out the questionnaire.**

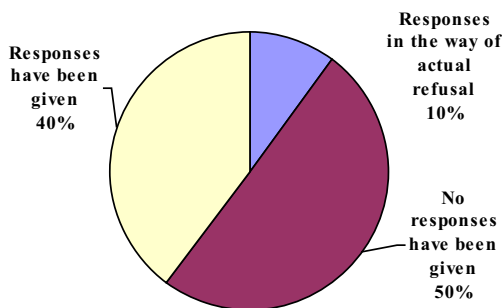
*** In January 2006 a special letter was sent by ExxonMobil.** The letter said: "ExxonMobil operates in about 200 countries across the world, and the Main Office it is headquartered every day receives similar letters in great quantities from those countries. Unfortunately, it is impossible to give responses to all letters." In addition, a report on EITI made by John Kelly, an ExxonMobil representative, was attached to the letter.

The rest 10 companies below neither gave responses to the questions nor officially replied to us, ignoring our repeated and urgent inquiries:

1. Unocal

2. Devon Energy Caspian Corporation
3. TPAO
4. Azgerneft
5. Itochu Oil Exploration (Azerbaijan) Inc.
6. ConnocoPhillips
7. Total E&P Azerbaijan B.V.
8. Amerada Hess
9. Shangli Oil
10. Shirvan Oil

So over half (60%) of the companies surveyed failed to give any answer. By comparison, of 76 companies involved in a similar poll in Kazakhstan, 80 percent (15) had not replied to questions asked.



Therefore, the questions are based on responses sent by eight companies.

Overall description of survey questions and responses

In response to the question “**Is your company interested in making broader information on its activity to the public?**” Garasu Operating Company chose the No answer, while the other 7 companies responded “Yes”. Nevertheless, four:

- **SOCAR**
- **Bp Exploration (Caspian Sea) Ltd**

- Shell Azerbaijan
- Statoil

noted that they have developed written regulations or in-house documents to disclose their activities to a wide audience in a publicly accessible and comprehensible manner. Although SOCAR had such a document, it said it was not available to the public, whereas similar documents owned by the other three companies were publicly available. ANSHAD Petrol and Salyan Oil answered that they had not designed such a document. Lukoil Overseas Services Ltd left the item blank.

In response to the question regarding **the level of cooperation the company maintains with local NGOs and media** Garasu Operating Company underlined that the information that met the company's interests was disclosed, while the other companies said they regularly disclosed their business update to the public. SOCAR and Salyan Oil maintained that they issued monthly press releases. BP, Statoil, and Shell responded that they held quarterly presentations to the press, while ANSHAD Petrol did it once a year. Lukoil skipped the interval of information disclosure.

Apart Shell and Lukoil, the rest companies maintained that they drew close attention to all inquiries from NGOs and media outlets.

The survey responses to the question **“Does your company have a classification of confidential information?”** showed that each company (but Garasu Operating Company) had a list of reports that was “not open for public scrutiny.”

In reply to the question **“Has your company made a commitment to ensure the transparency of its operations in the country?”** once again seven companies responded “Positively”, except for ANSHAD Petrol.

The further two items in the survey questionnaire pivoted upon public disclosure of technical, economic, and fiscal indicators, reflecting activities of the companies and their opinion in that concern.

Table 1 below shows responses to the question **“Which of the following activities (see Table 1) does your company consider it important to disclose to the public?”**

TABLE 1

**Activities Companies Consider not to Shield from
Public Scrutiny**

Companies	Production volume	Available reserves in aggregate	Total number of employees	Number of local staff	Business partners	Relations with government-linked entities	Shareholders
Garasu			+	+			
БП	+	+	+	+	+	+	+
Salyan Oil	+		+	+	+	+	+
ANSHAD Petrol	+		+				
Lukoil	+	+					
SOCAR	+	+	+	+	+	+	
Шелл	+	+	+	+			+
Статойл	+	+	+	+	+		+

As may be seen in the table above, only BP and SOCAR (it has no shareholders) considered it important to issue periodic reports on all activities for public availability. Statoil did not want to publish item 6 (relations with government-linked entities), while Shell responded “Negatively” to items 5 and 6 (business partners; relations with government-linked entities). The rest – Garasu, ANSHAD Petrol, and Lukoil, accordingly, considered it necessary to issue two reports of the seven only.

Subsequently, it was suggested to mark which of the following financial showings (see **Table 2**) the company considered it necessary to disclose to the public.

Leaving all items in the question blank, BP chose the box “other” and responded this way: “*Corporately BP makes a range of information available, including dividends, revenues, expenditure and profits. In Azerbaijan we make information available on www.caspiandevlopmentandexport.com as well as other information and indicators in the BP Azerbaijan Sustainable Development Report.*”

It can be understood from BP’s responses, including this one in particular, that BP provides the public with all information on its activity. SOCAR also sees it expedient to disclose all data (because of lack of shareholders, the company pays no dividends). Shell and Statoil admitted that all items shown could be publicly accessible, but dividends payable. The rest companies surveyed were reluctant to disclose most of the items. All the companies believed that only one indicator (tax payments to the government) could be publicly available. The table below integrates responses given by these companies.

TABLE 2

**Financial Showings Companies Often
Opt for Public Availability**

Companies	Volume of revenues	Capital expenditure	Operational expenditure	Tax payments	Other payments to the government	After tax return	Dividends payable
Garasu				+	+		
БП	+	+	+	+	+	+	+
Salyan Oil				+	+		
ANSHAD Petrol			+	+			
Лукойл	+	+		+			
SOCAR	+	+	+	+	+	+	
Шелл	+	+	+	+	+	+	
Статойл	+	+	+	+	+	+	

In response to the question “**Are the results of your company’s audited reports regularly disclosed to the public?**” four companies- BP, Salyan Oil, Lukoil, and ANSHAD Petrol answered “Positively”, whereas three companies – Garasu, Shell, and Statoil – responded “No”. SOCAR left this item blank. Reportedly, the latter has faced serious problems with the auditing system.

In response to the question **“Does your company have interest to individually disclose its reports on payments to the government?”** four companies- BP, SOCAR, Shell, and Statoil – responded “Positively”, the other four – Garasu, Salyan Oil, Lukoil, and ANSHAD Petrol– gave the “No” answer under the pretence of its failing to be stipulated by the company’s normative documents. Garasu wrote into the “other“ box “We are a private company.”

In response to the question **“Is the information on your company revenues under PSAs considered a commercial secrecy?”** only SOCAR answered that such information should remain confidential. Five companies – BP, Salyan Oil, Lukoil, Shell, and Statoil – showed it was partially confidential. ANSHAD Petrol left this item blank, while Garasu replied “Unsure”.

The next question in the questionnaire concerned cash payments the company made for financial transactions in Azerbaijan (apart from salary payments). Of the companies surveyed, two replied that cash payments were made; Shell showed that cash payments accounted for up to 10 percent of total payments. BP, leaving all items blank, clarified in this way: *“In Azerbaijan we make a number of payments on cash basis (such as tariff obligation) which vary over time, stressing that, because of this it has not been possible to give a percentage figure.”* The rest companies – Garasu, Salyan Oil, ANSHAD Petrol, Lukoil, Statoil, and SOCAR – claim they effected no payments on cash basis.

In response to the question **“Are there any anticorruption norms in your company’s regulations or other in-house documents?”** SOCAR and Lukoil replied “No”. ANSHAD Petrol, failing to give a response to this question, was likely to say it never included such norms in its normative documents. The rest – BP, Shell, Statoil, Garasu, and Salyan Oil marked the “Yes” answer.

In reply to another question related to that mentioned above **“Does your company employ any mechanisms to prevent its employees of being corrupted?”** four companies – BP, Shell, Statoil, and Garasu – responded “Positively”. That is to say, they have employed such mechanisms. Salyan, SOCAR, Lukoil, and ANSHAD Petrol marked that the case was regulated by Azerbaijan’s legislation. According to BP, although it has designed mechanisms to tackle the said problem, it was also regulated by Azerbaijan law.

According to the answers to the next survey question **“Has your company ever punished its employees for corrupt activities?”**, of the eight companies, six – Salyan Oil, ANSHAD Petrol, Lukoil, Shell, Statoil, and SOCAR – responded the “No” answer. Garasu and BP replied “Yes”, where the latter optionally added that such practice had been experienced at their companies. But Garasu marked it did not disclose the information to the public, while BP roughly disclosed the information to the public. BP’s optional response on the matter: *“The BP Group Sustainable Development Report does make information available on the number of staff dismissed for unethical behaviour (252 in 2004). However, our global employment practices include confidentiality provisions that restrict more specific disclosure, including disclosure on a country-by-country basis.”*

The responses to the question **“Are you interested in obtaining complete information on the targeted/correct use of funds your company has paid to the government?”** has given rise to an interesting fact: since BP, Lukoil, Shell, Statoil, and Garasu noted they were interested in obtaining such information, yet ANSHAD Petrol and the state-run oil company SOCAR replied “Negative”. Salyan Oil found it difficult to answer this question and replied “Unsure”.

In response to the question **“Can your company access complete information on the targeted/correct use of funds the company has paid to the government?”** five companies – SOCAR, Shell, Salyan Oil, ANSHAD Petrol, and Garasu – marked that they obtained information of that kind from the press only. According to Statoil, the government partly provided the company with such information. It also had a comment: *“We can find information from the government about spending of such funds in the State Budget and in SOFAZ, in addition to the press.”* As to BP, it becomes clear from its clarifications on this and next items that the company obtained the information from the government. However, Lukoil avoided answering the question.

Responding to the question **“Does your company encounter problems in relations with the government and its entities?”** Lukoil’s response was similar to the above one (“We are unwilling to reply”). SOCAR, Shell, and Statoil pointed to lack of such problems. BP’s response: *“Our relations with the State Oil Fund of the Azerbaijan Repub-*

lic (SOFAZ) State Program on Poverty Reduction and Economic Development (SPPRED) and other government entities – based on our mutual efforts aimed at tackling the socio-economic challenges faced by Azerbaijan– involve sharing of information on and discussion about the use of revenues which we help to generate, and the sharing of data associated with our oil and gas operations. When issues do arise, we feel comfortable that we are able to resolve them in a mutually acceptable manner.”

Unlike the companies above, Salyan Oil, Garasu, and ANSHAD Petrol admitted that from time to time they encountered challenges in relations with government-linked entities. Salyan oil here marked “fulfillment of environmental commitments”, while ANSHAD Petrol did “fulfillment of contract terms”. However, Garasu could not show any reason, marking “Very seldom”.

In response to the question **“Does your company encounter any cases of corruption in its activity?”** all respondents ruled out displays of corruption. BP also had a special clarification with regard to this question: *“While we do believe it is important for the government to tackle corruption (see inter alia, BP Azerbaijan Associate President David Woodward’s speech at the 2005 Oil and Gas Show), we believe that disclosure of specific instances are best dealt with by appropriate internal and external investigations rather than through public disclosure.”*

ANSHAD Petrol did not give any response to the question **“Has your company used services provided by a mediator (e.g., a consulting firm) in relations with the government?”** Salyan Oil and Shell Azerbaijan indicated that they did access such services. The rest companies maintained that they had direct links with the government and there was no need for any agent.

In response to the question **“Are you informed of the Azerbaijan Government’s activity towards ensuring the transparency of oil and gas revenues”** the eight companies surveyed marked that they had been informed of the Azerbaijan government’s activity ensuring transparency of oil and gas revenue payments. Later, it was suggested to rate this activity on a numerical point scale from “1. negatively” to “10. positively.” BP skipped this question. Statoil, however, avoiding the numerical scores, commented: *“We believe that the government is work-*

ing on EITI in a constructive and good way.” The other 6 companies rated this as following:

1. SOCAR	10
2. Лукойл	10
3. Салйан Оил	10
4. Shell Azerbaijan	7
5. ANSHAD Petrol	4
6. Garasu	4

Responding to the question **“Are you informed of the work of the NGO Coalition towards improving transparency in the extractive industries?”** five companies answered “Yes”, while three answered “No”. It is much surprising that SOCAR, like Shell Azerbaijan and Lukoil, marked that it had no access to the activity of the NGO Coalition for EITI. The rest companies – BP, Statoil, Garasu, Salyan Oil and ANSHAD Petrol – were informed of the NGO Coalition’s activity.

The questionnaire later asked the companies that replied “Positively” to rate the activity on a numerical point scale from “1. negatively” to “10. positively”. BP again did not rate this activity. Statoil gave a response similar to that in respect of the government: “We believe that the government is working on EITI in a constructive and good way.” The other three companies rated the work as following:

Salyan Oil - 10
Garasu - 6
ANSHAD Petrol - 2

Analysis of survey outcomes to companies

☛ SOCAR

The company declared that it had interest to greatly disclose its activity to the public and had a normative document to that end. For reasons that are unclear, the very document was not publicly accessible though. The company also marked that it closely cooperated with local NGOs and media, drew close attention to their inquiries, and informed them of its work (once a month).

According to the item in the questionnaire, the company had a classification of confidential information and made a commitment aimed at ensuring the transparency of its operations in the country.

The company considered it important to disclose information on production volume, available reserves in aggregate, total number of employees, including number of local staff, business partners, relations with government-linked entities, as well as financial showings, such as volume of revenues, capital expenditure, operational expenditure, tax and other payments to the government, after tax return.

The company pointed to disclosure of payments to the government on an individual basis. According to the company's response, reports on extractive sector revenue payments under PSA should not remain confidential.

There were no anticorruption norms in the company's regulations or other in-house documents. The company did not have any mechanisms to prevent its employees of corrupt practice, and it believed that the matter should be regulated by Azerbaijan law. The company had never punished any of its employees for being corrupted.

Interestingly, the company was not interested in accessing detailed information on the targeted use of funds it had paid to the government. The company was informed of the Azerbaijan government's activity towards ensuring the transparency of oil and gas revenue payments and rated the work on a 10-point scale. And the company noted it was not informed of the NGO Coalition activity under the EITI campaign.

According to the responses in the questionnaire, BP leads the companies surveyed in the context of ensuring greater transparency. The company declared that it is interested in greatly disclosing its activity to the public and had a normative document (in-house regulations) to that end. The company had a classification of confidential information. The company marked it closely cooperated with local NGOs and media, held quarterly presentations on business updates to the press, placed press releases on its website. The company noted that it was pleased to draw close attention to all inquires from local NGOs and media.

According to the related item in the questionnaire, the company made a commitment aimed at ensuring the transparency of its operations in the country.

The company regarded it important to disclose information on production volume, available reserves in aggregate, total number of employees, including number of local staff, business contractors, relations with government-linked entities, shareholders, as well as financial showings, such as volume of revenues, capital expenditure, operational expenditure, tax and other payments to the government, after tax return, and dividends.

The company marked that its activity in Azerbaijan was audited by an independent audit and audit results were timely disclosed to the public.

The company pointed out that it wanted reports on payments to the government to be published on an individual basis, yet it believed that reports on extractive sector revenue payments under PSA should partly remain confidential.

There were anticorruption norms in the company's regulations or other in-house documents and they were applicable in respect of its agents or contractors. Also BP employed mechanisms to prevent its employees of corrupt practice. The company punished hundreds of its employees for unethical conduct and partly disclosed the information to the public.

The company was interested in accessing complete information on the targeted use of funds it pays to the government and could obtain this information pending its cooperation with each government entity. BP claimed it had not faced problems in relations with the government and government-linked entities.

Although the company said it had broader access to the information on the Azerbaijan government's activity ensuring transparency of oil and gas revenue payments, it refused to rate the question.

➡ **Shell Azerbaijan**

The company was interested in making its activity available to the public and public availability of its in-house regulations was a graphic example. The company marked that it closely cooperated with local NGOs and media, informed them on its business update on a quarterly basis, and drew close attention to all inquiries.

According to the questionnaire, the company had a classification of confidential information and made a commitment aimed at ensuring the transparency of its operations in the country.

The company regarded it important to disclose information on production volume, available reserves in aggregate, total number of employees, including number of local staff, shareholders, as well as financial showings, such as volume of revenues, capital expenditure, operational expenditure, tax and other payments to the government, and after tax return. Nevertheless, it preferred not to disclose information on business partners, relations with government-linked entities, and dividends payable. Also it said it was against public disclosure of audit results. In addition, the company marked that it wanted to individually publish reports on payments to the government, yet it believed that reports on extractive sector revenue payments under PSA should fully remain confidential.

Shell Azerbaijan showed that cash payments account for about 10 percent of overall payments.

The company's regulations and other internal documents contained items of anticorruption character and they were applicable in relation with its agents and contractors. Also the company employed mechanisms to prevent its employees of corrupt activities. To date the company has not punished any of its employees to this end.

The company noted it had interest to access detailed information on the targeted use of funds it had paid to the government and could obtain this information through the media only. The company noted it had not

faced problems in relations with the government and government-linked entities.

The company said it had broader access to the information on the Azerbaijan government's activity ensuring transparency of oil and gas revenue payments and rated this activity as "7" on a 10-point scale.

However, the company noted that it had no access to the activity of the NGO Coalition for EITI.

Statoil

Like both companies above, Statoil also desired to disclose information on its activity to the public and it had appropriate in-house documents that were publicly accessible. The company marked that it closely cooperated with local NGOs and media and drew close attention to their inquiries. The fact that it issued quarterly press releases served a graphic example for this. According to the response in the questionnaire, the company had a classification of confidential information and made a commitment aimed at ensuring the transparency of its operations in the country.

Though the company marked it was against disclosure of information on its relations with the government and government-linked entities, it gave the "Yes" responses to disclosure of information on production volume, available reserves in aggregate, total number of employees, including number of local staff, business partners, and shareholders, as well as financial showings, such as volume of revenues, capital expenditure, operational expenditure, tax and other payments to the government, after tax return.

Nevertheless, it was against disclosure of audit results to the public. In addition, the company chose the item "disclosure of payments to the government on an individual basis", yet it believed, like BP, that reports on extractive sector revenue payments under PSA should partly remain confidential. Statoil noted it avoided making cash payments for its domestic operations.

There were anticorruption norms in the company's regulations or other in-house documents that were applied to its agents and contractors. Also the company employed mechanisms to prevent its employees of corrupt practice. To date the company has not punished any of its employees to this end.

The company showed that it was not interested in accessing detailed information on the targeted use of funds it had paid to the government and could obtain this information from both the government and the press. The company noted it had encountered problems in relations with the government and government-linked entities, but had not experienced any displays of corruption so far.

The company said it had broader access to the information on the Azerbaijan government's activity ensuring transparency of oil and gas revenue payments.

The company said it had broader access to the information on the Azerbaijan government's activity ensuring transparency of oil and gas revenue payments. The company believed that both the government and NGOs were working on EITI in a constructive and good way.

Lukoil Overseas Service Ltd

Survey results produced such an impression that increased transparency was not a key condition for Lukoil, unlike the companies above. Although the company declared its interest to greatly disclose information on its activity to the public, its further answers create a different impression. Since the company left blank the question concerning if it had any normative documents aimed at reflecting availability of its activity to the public. The company admitted that had established large cooperation with local NGOs and media, but failed to show the interval of information disclosure. Moreover, the company claimed that it had a classification of confidential information and made a commitment aimed at ensuring the transparency of its operations in the country.

The company considered it important to disclose information on financial showings, such as volume of revenues, capital expenditure, tax payments to the government. But it was not interested in disclosing information on some activities, such as total number of employees, including number of local staff, business partners, relations with government-linked entities, shareholders, operational expenditure, payments to the government, after tax return, and dividends. Nevertheless, audit results for the company's activity in Azerbaijan audited by an independent auditor were timely disclosed to the public.

The company did not wish to individually disclose payments to the government, explaining that such requirement had not been taken into

consideration when developing normative documents, and regarded that the subject was within the government's jurisdiction. The company believed that reports on extractive sector revenue payments under PSA should partially remain confidential. It avoided making cash payments for its domestic operations.

There were no anticorruption norms in the company's regulations or other in-house documents. And it did not employ any mechanisms to prevent its employees of corrupt practice and believed that the matter should be regulated, in compliance with Azerbaijan law. The company had not punished any of its employees for corrupt practice.

Although the company was interested in accessing complete information on the targeted use of funds paid to the government, but when responding to the related question, it "kept silence". The company BP failed to give a response to the question regarding availability of any problems in relations with the government and government-linked entities. The company has never punished its employees for corrupt activities.

The company showed that it had access to the information on the Azerbaijan government's activity ensuring transparency of oil and gas revenue payments and rated this activity as "10" on a 10-point scale. However, the company noted it was not informed of the local NGO Coalition activity under the EITI campaign.

➡ Garasu Operating Company

According to survey outcomes, the company was not interested in disclosing its activity to the public. Although the company said it closely investigated inquiries from local NGOs and media, it marked that it disclosed the information that could be of public interest only. The company had no classification of confidential information, but made a commitment aimed at ensuring the transparency of its operations in the country.

The company believed it was expedient only to disclose information on total number of employed including number of local staff, tax and other payments to the government. Seemingly, the company was against disclosure of the other items – volume of revenues, business partners, relations with government-linked entities, shareholders, as well as fi-

nancial showings, such as total receipts, capital expenditure, operational expenditure, after tax return, dividends, etc.

And audit results on the company's activity in Azerbaijan audited by an independent auditor were not timely disclosed to the public.

The company marked that it did not want to individually publish reports on payments to the government, explaining that such a requirement had not been taken into consideration when developing normative documents. Respondents at the company were not sure whether reports on extractive sector revenue payments under PSA were confidential or not. The company avoids making cash payments for its domestic operations.

Nevertheless, the company maintained that it has developed regulations and other internal documents containing items of anticorruption character, and they are applicable in respect of its agents and contractors. Also the company has designed special mechanisms to prevent its employees of corrupt activities. To date the company has experienced punishment for instances of corruption, but failed to make them available to the public.

Though the company has interest to access detailed information on the targeted use of funds paid to the government, it accesses such information through the media only.

The company noted from time to time it encounters problems in relationships with the government and government-linked entities (no reason for the problems has been specified), yet it claims that it has not experienced displays of corruption so far.

The company showed that it has access to the information on the Azerbaijan government and NGOs' activity ensuring transparency of oil and gas revenue payments and rates the government's activity as "4" and the Coalition's activity as "6" on a 10-point scale.

➡ Salyan Oil

According to survey outcomes, Salyan Oil, like Garasu Operating Company, is not much interested in disclosing its activity to the public and it certainly has neither charter nor in-house documents to that end. Nevertheless, the fact that the company claims it makes its business update available to the press once a month is not in accord with the previous responses.

The company even showed that it has a classification of confidential information and has made a commitment aimed at ensuring the transparency of its operations in the country. The company maintained it closely addresses inquiries from local NGOs and media.

The company reported that besides the item “Available reserves”, it discloses all technical and economic data – total number of employees, including number of local staff, business partners, relations with government-linked entities, and shareholders. Regarding financial showings, we can see a different situation here: the company believes that all items -volume of revenues, capital expenditure, operational expenditure, after tax return, and dividends payable- should remain confidential, but tax and other payments to the government. The company’s activity in Azerbaijan is audited by an independent auditor and audit results are timely disclosed to the public.

The company has no interest to individually disclose payments to the government, explaining that such requirement has not been taken into consideration when developing normative documents. The company claims that reports on extractive sector revenue payments under PSA should remain confidential. And it avoids effecting cash payments for its transactions at local level.

There were anticorruption norms in the company’s charter or other in-house documents and they were applicable in respect of its agents or contractors. Also Salyan Oil has employed mechanisms to prevent its employees of corrupt practice. Mechanisms to prevent its employees from being corrupted are regulated by Azerbaijan law. To date the company has not punished any of its employees to this end.

The company had difficulty to answer the question whether it has interest to have an access to detailed information on the targeted use of funds paid to the government but obtains such information through the media only.

The company noted that from time to time it encountered problems in relations with the government and government-linked entities and added the problems chiefly arise out of fulfillment of environmental commitments. Additionally, the company maintained that it has never practiced displays of corruption arising from its activity in the republic.

The company rates the activity of both the government and NGO Coalition as “10” on a 10-point scale.

ANSHAD Petrol declared that it has interest to greatly disclose its activity to the public and has a normative document to that end. But the very document is not publicly accessible for some reason. The company also underlined that it closely treats all inquires from NGOs and media and inform them about its business update once a year.

Though the company has a classification of confidential information, it has not made a commitment aimed at ensuring the transparency of its operations in the country.

The company believes it is expedient to disclose information on production volume, total number of employees, operational expenditure, tax payments to the government. However, the company is against disclosure of other items, such as available reserves in aggregate, number of local staff, business contractors, relations with government-linked entities, shareholders, as well as financial showings, such as volume of revenues, capital expenditure, other payments to the government, after tax return, and dividends.

Regarding financial showings, we can see a different situation here: the company believes that all items -volume of revenues, capital expenditure, operational expenditure, after tax return, and dividends payable-should remain confidential, but tax and other payments to the government. The company's activity in Azerbaijan is audited by an independent auditor and audit results are timely disclosed to the public.

The company did not wish to individually disclose payments to the government, explaining that such requirement had not been taken into consideration when developing normative documents. It avoided making cash payments for its domestic operations.

Nevertheless, the company skipped the question anticorruption norms in the company's charter or other in-house documents. According to the company, mechanisms to prevent its employees from being corrupted are regulated by Azerbaijan law. To date the company has not punished any of its employees to this end.

The company is not interested in obtaining detailed information on the targeted use of funds paid to the government. The company noted from time to time it encounters problems in relations with the government and government-linked entities due to fulfillment of contract

terms, yet it claimed that it has not experienced instances of corruption that may arise out of its domestic activities.

The company showed that it has access to the information on the Azerbaijan government and NGOs' activity ensuring transparency of oil and gas revenue payments, and rated the government's activity as "4" and the Coalition's activity as "2" on a 10-point scale.

Assessment of survey outcomes

Data processing and studies concerning the survey conducted among several EI companies operating in Azerbaijan have revealed the following outcomes:

1. Although all of companies surveyed joined the EITI, they are not interested in greater transparency to disclose their activity to the public. This is proved by the fact that, of 20 companies we had sent the questions to to give responses, only 12 replied to us. One of the companies surveyed (Garasu) even confessed this. In addition, only a few of them have designed internal normative documents on public availability of information. Even more than half of companies surveyed are unwilling to publicly disclose results of their technical, economic, and financial operations, yet all of them claim they have public declarations to ensure transparency of their transactions carried out within the country.

2. The attitude of the most companies surveyed to NGOs and mass media also is far from principles of transparency. Although the companies claim they closely address inquiries made by NGOs and media outlets, in practice, the situation is real different: it is surprising that out of the companies surveyed, only three companies (15%) could respond to us within agreed time limit (two months).

3. Most of the foreign companies surveyed still have no interest to disclose individual reports on payments to the government. Only three – BP, Shell, and Statoil want to disclose these reports.

4. Actually all the companies consider that reports on extractive sector revenue payments under PSA should partly remain confidential.

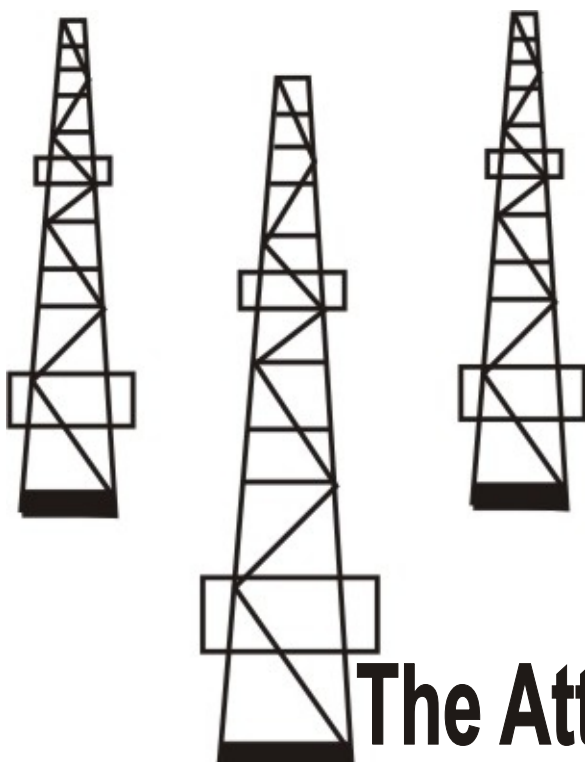
5. Unlike SOCAR, the other companies have included the item regarding anticorruption in their regulations or other normative docu-

ments, and they are applicable in respect of their agents and contractual partners.

6. Although greater part of the companies surveyed had interest to access detailed information on the targeted use of funds paid to the government, they obtained such information from the media only.

7. The majority of the companies are informed of the government's activity under EITI. However, according to the survey responses, some companies find this activity unsatisfactory.

8. The companies have poor access to the activity of the NGO Coalition for EITI. Even if those companies that have been provided with this information have assessed this activity on the lowest score points. Interestingly, the National oil company SOCAR also reported that it is unaware of the NGO Coalition activity in terms of EI initiative. Therefore, the NGO Coalition should increase its attention to closer cooperation with the companies and focus on awareness of its activity.



The Attitude

of Government Entities

to the Extractive Industries
Transparency Initiative (EITI) Campaign

Survey overview and objectives

The government's commitments to extractive industry (EI) transparency are rather clear. On the one hand, it is committed to developing a normative and legal base, as well as shaping necessary mechanisms to achieve transparency and accountability in this field, while ensuring transparency in the activity of public sector entities, on the other hand. In this concern, Azerbaijan's joining Extractive Industries Transparency Initiative (EITI) at the International Conference on EITI held in London in June 2003 must be appreciated. The first step toward was the establishment of the National Committee on EITI on November 13, 2003 by the Ordinance of Azerbaijan's Cabinet of Ministers. Later, the Commission developed report forms (templates) on EI revenues to be paid by oil and gas companies operating in Azerbaijan. Nevertheless, practice shows that the government as a whole as well as each public sector entity needs to be more synergetic and productive to achieve greater transparency in the extractive sector. It is particularly important they assess the significance of EITI in a proper form and to reveal that how well they prioritize tools needed for transparency in their activity. Given the above-mentioned, the survey conducted among government-linked entities had to find answers to the questions that reflected three targets below:

First: How well do government-linked entities attach importance to components needed to ensure transparency?

Second: What is the degree of the government's interest in EITI?

Third: What is the level of relations between the public sector entities and EITI participants?

It is necessary to glance at the composition of respondents before passing on to generalization and assessment of outcomes.

Overall 11 entities had been involved in the survey conducted among government-linked entities. Below is the list of those surveyed:

- **Ministry for Communications and Information Technologies**
- **Ministry for Taxes**
- **Ministry for Industry and Energy**
- **Ministry for Finance**
- **Ministry for Economic Development**

- **Ministry for Ecology and Natural Resources**
- **State Statistics Committee (SSC)**
- **State Social Protection Fund**
- **Chamber of Accounts**
- **The State Oil Fund (SOFAZ)**
- **Ministry for Transport**

The key principle in the choice of survey participants has been attended by extractive industry transparency initiatives in any form. Based on this principle, the selection process goes through three criteria: the first group consists of public sector entities that are included in the EITI National Commission. The list includes the Ministry for Industry and Energy, the Ministry for Finance, the Ministry for Ecology and Natural Resources, the Ministry for Economic Development, SOFAZ, and the State Statistics Committee. The second group in the capacity of respondents consists of those public sector entities that are regularly needed for exchange of data in the activity of the EITI National Commission and NGO Coalition for EITI. This includes the Chamber of Accounts and the State Social Protection Fund. Finally, the criterion for the third group of survey participants is that some activity lines (e.g., transportation, freight service, creation of electronic networks for data exchange, etc) are linked with these entities. This group includes the Ministries of Transport and Communication and Information Technologies.

Overall description of survey questions and their answers

All questions have been grouped to respond to the intents of the questionnaire. Intent one covered eight questions to determine to what extent government-linked entities attached importance to tools which are essential for transparency.

The first question was about whether the said companies showed interest to greatly disclose their activity to the public. All respondents answered “Positive” to this question. But how is the level of relations between the government entities and the public? All participants (besides the Chamber of Accounts) noted all data that are of public nature are dis-

closed to the public. Also the Ministries for Economic Development, Taxes, Ecology and Natural Resources, Industry and Energy, and the State Statistics Committee noted they seriously addressed concerns from citizens and NGOs. Of respondents surveyed, five entities below mentioned that all information on their activity is placed on the website:

- **Ministry for Economic Development**
- **Chamber of Accounts**
- **State Social Protection Fund**
- **Ministry for Ecology and Natural Resources**
- **State Statistics Committee**

The public availability of information on any organization directly depends on the presence of relevant structures at these entities (for example, ones responsible for public or press affairs), as well as websites and press offices at there. The survey showed that there is a public relations department at the Ministry for Economic Development, while press services at the Chamber of Accounts, Ministries of Industry and Energy, and Finance, State Social Protection Fund, and SOFAZ; a department for press and public affairs at the State Statistics Committee. There are separate departments responsible for both public and press affairs at the Ministry for Communications and Information Technologies, the Ministry for Taxes, and the Ministry for Ecology and Natural Resources. In addition, all respondents (besides the Ministry for Industry and Energy) have launched their own websites. Given below is the list of entities that have press organs:

- **Ministry for Taxes**
- **Ministry for Communications and Information Technologies**
- **State Social Protection Fund**
- **Ministry for Ecology and Natural Resources**
- **Ministry for Finance**

To investigate which information is not publicly accessible at the entities surveyed, five of them – the Ministries for Taxes; Finance; Industry and Energy; Ecology and Natural Resources, and the State Statistics

Committee – responded to the question “Positive”. The Ministry for Industry and Energy and the State Statistics Committee skipped the question **“What opportunity does the public have for access to the list of such information?”**. The Ministry for Finance and the Ministry for Ecology and Natural Resources maintained any individual addressing can have access to the list of information. The Ministry for Taxes, in turn, noted that any person can obtain the list from the Ministry or exploring its website.

The Ministry for Economic Development has not responded to the question **“Have you developed a normative document aimed at ensuring transparency?”**, while the State Oil Fund and the Ministry for Industry and Energy responded “Negative”, the other seven entities answered “Positive”.

Target two covered four questions to investigate the level of interest displayed by the government-linked entities in the initiative campaign. First, respondents were asked about their awareness on EITI. The Ministry for Communications and Information Technologies, the Ministry for Finance, and the Chamber of Accounts answered “To some extent”, while the other seven entities noted that they are broadly aware of the initiative. But what sources do these entities obtain this information through? Following is the answers:

- **Periodical publications**- Ministry for Finance, Ministry for Communications and Information Technologies, Chamber of Accounts, Ministry for Ecology and Natural Resources, Ministry for Taxes, State Statistics Committee, SOFAZ, State Social Protection Fund
- **Websites**– SOFAZ
- **Social events and presentations** - Ministry for Industry and Energy, SOFAZ, State Statistics Committee
- **National Commission meetings** – Ministry for Industry and Energy, Ministry for Economic Development

Five entities – the Ministry for Taxes, the Ministry for Communications and Information Technologies, the Ministry for Finance, the State Social Protection Fund, and the Chamber of Accounts- have answered “Negative” to the question **“Is your entity involved in the EITI cam-**

paign in any form”. But how do those entities involved in the EITI participate in this process?”:

- **The Ministry for Industry and Energy, SOFAZ, the Ministry for Economic Development, the State Statistics Committee are members of the National Committee on EITI.**
- **The Ministry for Ecology and Natural Resources provides the National Commission with required information.**

Of the five entities involved in this campaign, three (Ministries for Taxes; Finance; and Chamber of Accounts) consider it necessary to represent the EITI.

Target three covered 13 questions to investigate the level of attitude of entities surveyed toward other members in the EITI campaign. First, respondents were asked about their awareness on the NGO Coalition for EITI. Following is the answers:

- **Access to detailed information**– SOFAZ, Ministry for Taxes, State Statistics Committee, Ministry for Industry and Energy
- **Access to information partly**– Ministry for Economic Development, Chamber of Accounts, Ministry for Ecology and Natural Resources, Ministry for Finance, State Social Protection Fund
- **No access to information**– Ministry for Communications and Information Technologies

In addition, the survey has investigated from what sources the entities obtain information on the activity of the NGO Coalition. Respondents’ answers are:

- **The Coalition website**– SOFAZ, Ministry for Ecology and Natural Resources, Ministry for Taxes, Chamber of Accounts
- **Websites launched by individual members of the NGO Coalition members**– Ministry for Ecology and Natural Resources, Chamber of Accounts
- **Events initiated or arranged by the NGO Coalition**– Ministry for Ecology and Natural Resources, State Statistics Committee
- **Periodical publications** – State Social Protection Fund, Ministry for Finance, Ministry for Ecology and Natural Resources, Ministry for Industry and Energy, State Statistics Committee,

Ministry for Economic Development, Ministry for Taxes,
SOFAZ, Chamber of Accounts

- **Other sources** – One respondent

The next question asked as part of this purpose had been whether the government-linked entities are satisfied with the activity of the NGO Coalition for EITI. According to the survey answers, only the Ministry for Taxes and The State Statistics Committee are satisfied with this activity. Although the State Social Protection Fund has left the item blank, the Chamber of Accounts seemed to be displeased with this activity. The other six entities – the Ministry for Economic Development, SOFAZ, the Ministry for Ecology and Natural Resources, the Ministry for Finance, the Ministry for Industry and Energy, and the Ministry for Communications and Information Technologies - answered “Partly”.

It is interesting to know what arguments these displeased entities present. Possible answers to question boxes in this respect are as following:

- **The NGO Coalition cannot assess the importance of EITI properly** – None
- **The NGO Coalition cannot build up constructive cooperation with the government and companies in EITI implementation**– None
- **The NGO Coalition is unable to offer effective public oversight mechanisms to the government and companies in respect of increasing transparency of EI revenue payments** – Chamber of Accounts, Ministry for Industry and Energy
- **The NGO Coalition cannot show adherence to principle in EITI implementation**- Chamber of Accounts
- **Optionally, write in your comments** – None

The survey also revealed the attitude of the government-linked entities to EI companies operating in Azerbaijan. Only one entity (State Statistics Committee) answered “Positive” when responding to the question **“Do you think the activity of EI (oil and gas) companies in Azerbaijan transparent?”** The rest nine entities marked it as “Partly”. The number of those that claim local companies are more transparent is larger: the Ministry for Communications and Information Technologies, the State Social Protection Fund, the State Statistics Committee, and the Ministry of Taxes considered that the local companies work

completely transparently, while the other six entities answered “Partly”. Interestingly, how do the entities that consider the activity of both foreign and local companies not transparent explain their points? Although optional answers in respect of foreign companies were offered, none of the entities substantiated their positions. These options were:

- **Companies fail to regularly submit reports on their current business updates to the government;**
- **Companies do not inform the government about the activity of their affiliated branches;**
- **Companies fail to regularly provide the public with reports on tax and other payments to the government;**
- **Companies fail to disclose their operational expenditure to the public;**
- **Companies fail to disclose their net profit to the public;**
- **Optionally, write in your comments**

A similar situation has been met in the activity of local companies. Only the Ministry for Industry and Energy noted that audit results concerning the activity of local companies are not disclosed to the public, and the management system does not meet standards. Possible alternatives below were offered so that the respondents that thought local companies’ activity was not transparent could explain their points:

- **Auditing is not conducted timely;**
- **Audit results are not disclosed to the public;**
- **Management fails to meet standards;**
- **Recruitment process is not transparent;**
- **Optionally, write in your comments.**

Undoubtedly, it should be of interest to anybody to see if arises any problem between EI companies and government-linked entities. According two entities – the Chamber of Accounts and the Ministry for Ecology and Natural Resources, such problems do arise, while the other eight respondents ruled out availability of problems. **But what is the reason for problems that the two entities point to?** In this connection, the survey questionnaire offered possible alternative answers below:

- **Failure to transfer tax payments in a timely and full manner-** Chamber of Accounts
- **Failure to timely report to tax bodies-** Chamber of Accounts
- **Failure to adhere to contractual liabilities on the environmental issues - Ministry for Ecology and Natural Resources,** Chamber of Accounts
- **Failure to comply with investment liabilities in accordance with contracts signed -** Chamber of Accounts;
- **Failure to secure employees' labor rights adequately -** Chamber of Accounts
- **Optionally, write in your comments -** None

At the bottom of the questionnaire the government-linked entities surveyed were asked to assess the activity of both the extractive sector companies and NGO Coalition on a 10-point scale.

So the government-linked entities have surveyed have assessed both the extractive sector companies and NGO Coalition on this scale as following:

- 5 points** – Chamber of Accounts, Ministry for Finance
- 6 points** - Ministry for Ecology and Natural Resources, SOFAZ
- 7 points** – State Social Protection Fund, Ministry for Economic Development, Ministry for Energy and Industry.
- 9 points** – Ministry for Taxes
- 10 points** – State Statistics Committee
- Zero point** – Ministry for Communications and Information Technologies

The average point from the government-linked entities' assessment on the activity of companies was close to 6.8.

Lastly, the government-linked entities have assessed the activity of the NGO Coalition for EITI in Azerbaijan as following: EI companies efforts to ensure greater transparency have been assessed on a 10-point scale as following:

- 5 points** – SOFAZ, Ministry for Ecology and Natural Resources, Ministry for Finance, Ministry for Economic Development, Ministry for Finance, Chamber of Accounts, the Ministry for Energy and Industry.
- 7 points** – State Social Protection Fund
- 8 points** – Ministry for Taxes

10 points – State Statistics Committee

Zero point– Ministry for Communications and Information Technologies

Note: for both groups “1” is strongly negative; “10” is strongly positive.

Assessment of survey outcomes

The analysis of the survey, initiated by the NGO Coalition EITI campaign, conducted among the government-linked entities has revealed a catalogue of attractive outcomes. **First**, it became clear that there is a pressing need to provide most government-linked entities with essential tools to ensure transparency. Since although the fact that they have launched their own websites and periodical publications is one of the fundamental components for public availability of information, a number of strategically important entities, such as the Ministry for Economic Development, the Chamber of Accounts, the State Statistics Committee, SOFAZ have not created their own press organs so far, while the Ministry for Industry and Energy has launched neither its press organ nor website.

Second, the survey outcomes showed that some government-linked entities are insufficiently aware of the EITI program. Since although three entities – the Ministry of Taxes, the Ministry for Ecology and Natural Resources, and the Ministry of Finance – are members of the National Commission for EITI, they have poor access to the initiative. Officials representing the Ministries of Taxes and Finance noted that they had never been involved in EITI in any form, while an official at the Ministry for Ecology and Natural Resources stated that this entity discloses information which is necessary for its partners.

Third, it turned out that two entities - the Ministry of Finance and the Chamber of Accounts, which demanded for detailed information on EITI – were not fully aware of the initiative. In addition, the Ministry of Finance (member of the National Commission) and the Ministry for Ecology and Natural Resources have not been sufficiently provided with information on the NGO Coalition, established as part of the campaign.

Fourth, the survey showed that although significantly large materials related to EITI have been published on the Internet, concerned public sector entities are reluctant to have access to the very sources. Since of all entities surveyed, only three entities - the Ministry for Ecology and Natural Resources, the Chamber of Accounts, and the Ministry for Taxes- admitted that explore websites to obtain information on EITI, including the activity of the NGO Coalition in that direction.

Fifth, the level of the approach of government-linked entities to the activity of the NGO Coalition with respect to objectivity and professionalism is unsatisfactory. Since although the majority of respondents surveyed reported the activity of both local and foreign EI companies is not transparent, they have not sought to present arguments in any form. Only two entities– the State Statistics Committee and the Ministry for Ecology and Natural Resources have slightly assessed problems that prevent the foreign companies in Azerbaijan from ensuring transparency. None of the entities surveyed have expressed opinion in terms of local companies. In fact, if there are problems with greater transparency, then they should have adequately provided the official assessment on those problems. This approach has been found in the problems between the government-linked entities and companies. Namely, the respondents pointed to insufficient transparency as a mean position on the one hand, while noted that there were no problems with the companies, on the other hand. Only two entities- the Ministry for Ecology and Natural Resources and Chamber of Accounts have focused on the following problems they had experienced:

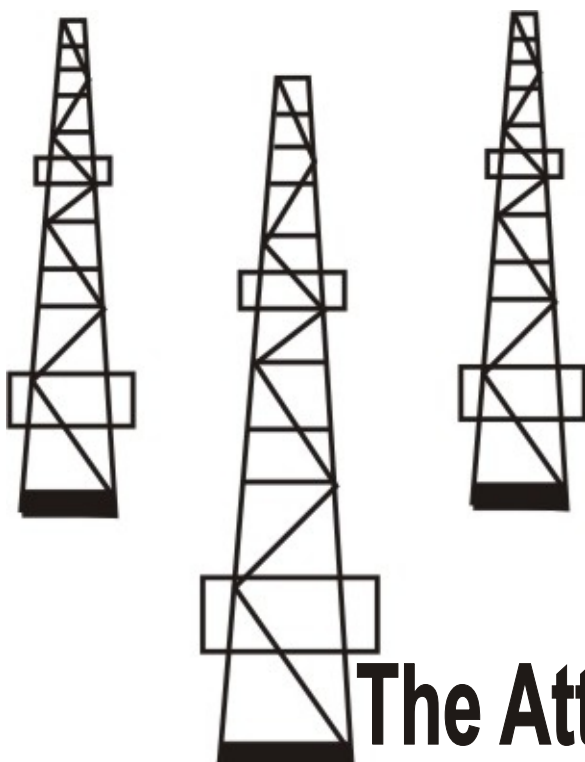
- **Failure to adhere to contractual liabilities on the environment issues**
- **Failure to secure employees' labor rights adequately**
- **Failure to transfer tax payments timely and fully**
- **Failure to comply with investment liabilities adequately**

Similar approach has been found in the attitude to the activity of the NGO Coalition. Only two entities– the Ministry for Taxes and the State Statistics Committee - reported that they are completely pleased with the activity of the NGO Coalition for EITI. Overall respondents have assessed the NGO Coalition activity as “5.5” on a 10-point scale. Only two entities – the Chamber of Accounts and the Ministry for Industry

and Energy- that were dissatisfied with the Coalition's activity have expressed their grounds as following:

- **The NGO Coalition is unable to offer effective public oversight mechanisms to the government and companies in respect of increasing transparency of EI revenue payments**
- **The NGO Coalition cannot show adherence to principle for EITI implementation**

So, the survey outcomes focused on interesting points with regard to further development of relations between the state bodies and other member-parties to the EITI campaign.



The Attitude

of NGOs and Media

to the Extractive Industries
Transparency Initiative (EITI) Campaign

Survey overview and objectives

At present, civic society development rests on the activity of local NGOs and media, while results of their activity depend on the provision of accountability and transparency. The limited activity of NGOs and media, “revolving on their axis” in particular, or at best the limit of maintaining support for each other, their episodic, random contacts with government-linked entities and major oil giants in Azerbaijan have led to a complete distortion of their original nature. A primary reason for this, most likely, is that these entities and companies feel disinclined for joint cooperation with NGOs and media. Consequently, this knots application of some principles of good governance on the activity of government-linked entities and companies, as well as NGOs and media. The outcomes of the survey aimed at increasing co-operation between the sides (between government-linked entities and oil companies with NGOs and media) within the initiative is of great importance in respect of assessing the actual situation and taking into consideration the lessons emerged out of these outcomes.

The survey conducted to this end has involved 46 respondents, of which **27 are NGOs, 19 are media outlets**. Because 18 of the NGOs are members of the NGO Coalition for EITI and the other nine respondents show interest for access to information on the initiative, they have been involved in the survey.

The 19 media outlets surveyed reported they show deep interest in and are informed of the initiative.

The survey was conducted with a two-stage system:

In the first stage a selection on a verbal basis (on the phone) was carried out according to the list of organizations placed by the NGOs virtual resource center on www.ngo-az.org).

The selection process was based on the following criteria:

- **NGOs surveyed show interest in the development of EITI ;**
- **The organization’s previous experience in this field.**

The organizations assigned on these criteria later were provided with the survey questionnaire.

All respondents (both NGOs and media) surveyed were asked to answer 11 questions. The questions have been grouped into the blocks below:

1. To determine the availability of information on oil revenue payments to respondents; their attitude to opportunities for public awareness and potential public oversight in that direction

2. To investigate the attitude of respondents to the level of transparency at EI companies and to concretize their positions on problems that impede greater transparency

3. To study the attitude of respondents to the level of transparency commitments by government-linked entities that supervise the extractive sector and to concretize their positions on challenges that impede greater transparency

4. To study the attitude of respondents to the level of transparency in the activity of the NGO Coalition for EITI and to concretize their positions on challenges that impede greater transparency

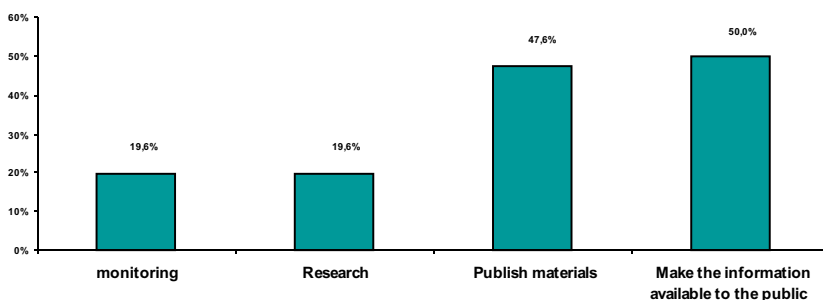
5. To rate the attitude of respondents to strides that are taken forward on transparency in EITI implementation.

Overall description of survey questions and their answers

The survey questionnaire has first specified the respondents' role in EITI implementation.

The survey showed that -

- **18 respondents (39.1%) represent the NGO Coalition;**
- **Nine respondents (19.6%) hold monitoring in this direction;**
- **Nine respondents (19.6%) - conduct studies;**
- **22 respondents (47.9%) publish materials;**
- **23 respondents (50%) make information available to the public.**



Next questions:

Responses to the question “How you obtain information on EI (oil and gas sector in particular) revenue payments?” are as following:

- **Nine respondents receive answers through inquiries;**
- **24 respondents consult reports issued by relevant bodies;**
- **21 respondents explore websites of relevant bodies;**
- **25 respondents consult statistical bulletins and publications issued by relevant bodies;**
- **18 respondents have access to data at unofficial level.**

Optionally, a group of respondents in response to this question noted that they obtain the information from other NGOs, media outlets, as well as through periodic publications on the oil and gas sector in particular. Two respondents have ruled out transparency in this field and they cannot obtain information adequately.

Responses to the “How does your organization disclose information on EI, in particular oil and gas sector, revenue payments to the public?” -

- **Four respondents - periodical reports are submitted;**
- **11 respondents - roundtables, press meetings are held;**
- **Six respondents - public hearings are arranged;**
- **11 respondents - adequate information is placed on websites;**

- **Eight respondents** -bulletins, magazines, books are published;
- **26 respondents** - articles and interviews are published.

As comments, three of the respondents have emphasized that they make the information available to the public in their research work, meetings, and private contacts.

Responses to the question “Ere you satisfied with the current public oversight over oil revenue payments?” -

- **One respondent** – Yes
- **44 respondents** - No

One respondent has left this section blank.

The attitude of those respondents that are dissatisfied with the level of opportunities for public oversight to measures they consider more important is as following:

- **26 respondents** – increased role of parliament in public oversight over the use of petrodollars;
- **24 respondents** - monitoring of social, economic, and ecological projects to be implemented at the expense of oil revenues with further submission of outcomes to the public;
- **21 respondents** - public availability of audit results at EI companies in Azerbaijan;
- **24 respondents** - involvement of NGO representatives in SOFAZ's Supervisory Board;
- **25 respondents** - broader activity of the NGO Coalition for EITI.

Optionally, four respondents have marked these clarifications:

- **One respondent** – information must be made disclosed to the public in simple language;
- **One respondent** — the NGO Coalition has no powers but plays the role of a curtain in the government's favor for public oversight;
- **One respondent** — involvement of NGO members in SOFAZ's Supervisory Board must be provided;

- **One respondent** — SOFAZ report on the forecast of near-term and strategic receipts and expenditures must be developed and made available to the public.

In response to the question “Do you think the extractive sector, particularly oil and gas companies, work transparently?” one respondent replied “Yes”, while 41 – “Negatively”, 3 – “Slightly positively”. Arguments of those with negative responses are as following:

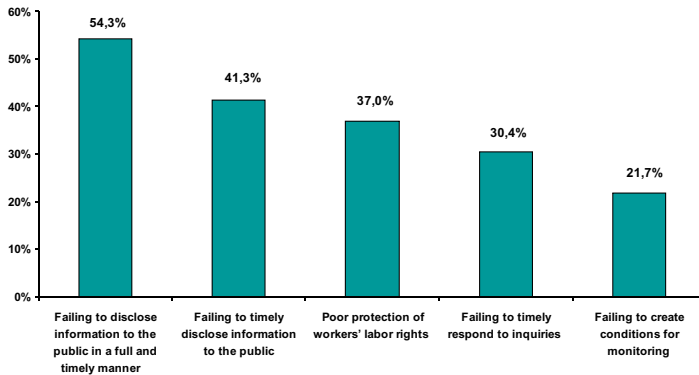
- **26 respondents** – companies do not regularly make business updates available to the public;
- **19 respondents** – companies fail to regularly provide the public with published data on payments to the government;
- **Five respondents** — companies fail to disclose reports on their operational expenditure to the public.

Optionally, four respondents have given the following clarifications, in addition to the above:

- **One respondent** – corrupt practices are observed at the company;
- **One respondent** — no timely attention is drawn to inquiries;
- **One respondent** — expenditures are overstated, funds are misappropriated by a group of individuals;
- **One respondent** — information do not seem convincing for public.

Responses to the question “What kind of problems have you encountered in relations with extractive sector companies?” are as following:

- **25 respondents** - failing to disclose information to the public in a full and timely manner;
- **20 respondents** -failing to timely disclose information to the public;
- **10 respondents** - failing to create conditions for monitoring;
- **14 respondents** - failing to timely respond to inquiries;
- **17 respondents** - poor protection of workers’ labor rights.



One of the respondents has optionally commented that the companies are always causing problems with monitoring.

In response to the question **“Is the activity of state oil and gas companies transparent?”** one of the respondents answered “Yes”, while 41 answered “Negatively”, one respondent answered “Partly”.

Those with negative responses had the following arguments:

- **25 respondents** - the government fails to periodically provide the public with published data results on state financial oversight;
- **23 respondents** –data concerning oil and gas revenues collected in public funds as well as government management of these revenues are not publicly accessible;
- **22 respondents** -the government reduces opportunities for holding monitoring of projects financed from state budgets including SOFAZ;
- **19 respondents** -the government shows no interest in cooperation with NGOs and media towards increasing transparency.

Response to the question **“What problems have you encountered in relations with government-linked entities that supervise responsible the extractive sector, particularly oil and gas producing companies?”**:

- **17 respondents** – failing to disclose information to the public in a full and timely manner;

- **12 respondents** - failing to create conditions for monitoring on projects;
- **13 respondents** - failing to timely respond to inquiries;
- **18 respondents** - poor level of reporting, accountability, and confidence.

Three respondents have admitted that they never faced such problems.

Following is the responses to the question “Which of the following measures is important to increase EI revenue transparency?”:

- **26 respondents** - it is necessary to submit a report on revenue payments to parliament , at least once a quarter;
- **28 respondents** - it is necessary to officially publish data on payments to state budgets and the State Social Protection Fund (SSPF) by each extractive sector company, not later than once a year;
- **19 respondents** - EI revenue data must be detailed by identified payment;
- **19 respondents** - the tax system/regime under each PSA must be publicly and fully accessible;
- **31 respondents** - it is necessary to individually submit reports on the companies’ receipts and expenditures, including tariff obligations.

As an additional notice, one of the respondents surveyed has given this clarification: “In civilized states, companies quarterly publish production and financial statements on their websites. The published data are verified by an audit company and tax bodies. Should this occur in our country, there will be no need for additional “games””.

Assessment of survey outcomes

➡ According to Block One

(Close to 50% of organizations surveyed have access to information they need by obtaining statistic bulletins, reports, and publications issued by appropriate entities, as well as exploring their websites. Interestingly, 39.1% of respondents still prefer to tackle this problem by means of private contacts. These facts – two percent of respondents find difficulty in tackling the problem, while nine percent of them receive responses to their inquiries and 18% opt for private contacts to achieve their goals – point to problems with availability of information required, and low level in using latest information technologies for problem tackling.

- Regarding disclosure of information to the public, only four respondents (8.7%) make it available through submitting periodic reports, whereas 11 of them place information that may be of public interest on their websites. So in this situation, two thirds of organizations fail to make reports publicly accessible, but favor to write articles, to give interviews, to publish bulletins, magazines, books, to hold press conferences or meetings, roundtables, and public hearings.

- The survey showed that the great majority of respondents (97.8%) are dissatisfied with opportunities available for public oversight over the use of natural resource revenues.

The majority of those complaining of the established public oversight over the use of natural resource revenues consider it necessary to double the role of parliament in implementing this function and to augment the activity of the NGO Coalition to Improve Transparency in the Extractive Industries. 24 respondents (52.2%) emphasize that NGO members should be involved in the SOFAZ's Supervisory Board to ensure adequate public oversight. Optionally, one of the respondents has underlined that the NGO Coalition has no powers but plays the role of a curtain in the government's favor for public oversight.

➡ According to Block Two

- The attitude of local NGOs and media outlets surveyed towards the activity of extractive industries, in particular oil and gas producing companies, committed to ensuring transparency and accountability is as following: the vast majority of respondents (89.1 %) say the companies' activity is unsatisfactory, while one respondent regards this activity transparent and two value as partly transparent.

The respondents emphasize the primary reason for lack of transparency in companies' activity is because of failing to submit reports to the public on their current operations and operational expenditure. 41.3% of respondents, particularly have accused the companies of failing to provide the public with full information on payments to state budgets (tax and other payments). As additional remarks, four respondents have grounded their opinions on (1) corrupt practices at companies, (2) failure to respond to inquiries timely, (3) misappropriation of funds by a group of individuals through overstating expenditure, and (4) groundless information.

- The list of problems among local NGOs/media and the extractive sector companies includes failure: to disclose full and duly information to the public (54.3 %), to submit reports for public view in due time (41.3 %), to secure their workers' labor rights as needed (37 %), to give responses to inquiries in a timely manner (30.4%), and to create conditions for monitoring (21.7%). As it can be seen from these items, NGOs and media outlets are chiefly dissatisfied with the companies' attitude towards fundamental components of revenue transparency reforms, such as public availability, reporting, etc.

➡ According to Block Three

- Regarding transparency in the activity of government-linked entities ensuring oversight over the extractive sector, particularly oil and gas producing companies, only one respondent regards that the activity of these entities is fully transparent. According to 41 respondents (95.5%), the government entities do not address transparency in their

activities. The respondents claim this, as the government still fail to disclose to the public periodic reports on state financial oversight outcomes; data on oil and gas revenue payments collected in public funds are not publicly accessible. 47.8% of respondents consider that the government restrains opportunities to hold monitoring of projects financed from the budget and the Oil Fund. The specific weight of respondents that reproach the government with showing no interest in cooperation with local NGOs and media with a view to increasing transparency is 41.3%.

- The key problem among NGO/media and government bodies is due to poor reporting, accountability, and confidence, as well as lack of disclosure of public information fully and timely. Three respondents maintain that they have no problem at government level.

➡ According to Block Four

- The majority of respondents consider it necessary to submit reports that contain the companies' receipts and expenditures, as well as their bills with a view to increasing transparency of EI revenues. This is supported by 67.4% of respondents. One of the strides the respondents point to is official publication of payments to state budgets and the State Social Protection Fund (SSPF) by each extractive sector company once a year. 56.5% of respondents share such an opinion that it is necessary to submit to Parliament at least a quarterly report on oil revenues.

Summarizing survey outcomes, it is possible to conclude that:

- **Most of local NGOs and media outlets are poorly equipped with the latest technologies to have maximum access to information.**
- **Public availability of information is still provided chiefly by means of unofficial methods.**
- **The level of accountability in their activities in terms of processing and delivering information to the public is inadequate.**
- **Opportunities for the public to exercise oversight of extractive industry revenue payments have been provided at a real low level.**

- **Most NGOs and media outlets believe that extractive industry companies and related government-linked entities in Azerbaijan do not address greater transparency in their activities.**
- **Most NGOs and media outlets believe that major problems between the government and EI companies in the country are due to an insufficient amount of accountability and confidence in their activities as well as lack of opportunities for reporting in a full and timely manner.**